

Draft 2004 Financial Forecast

TRANSPORTATION AND COMMUNICATIONS COMMITTEE ATTACHMENT #4.3

Thursday, March 6, 2003

REPORT

DATE: March 6, 2003

TO: Transportation & Communication Committee

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SUBJECT: Draft 2004 RTP Financial Forecast

EXECUTIVE DIRECTOR'S APPROVAL:



RECOMMENDED ACTION:

Approve the Working Draft Baseline Financial Forecast for the 2004 Regional Transportation Plan.

SUMMARY:

Draft 2004 RTP <u>Baseline</u> Regional Checkbook by County (in constant 2002 dollars, billions) Revenues include Riverside County Local Sales Tax Extension, Prop 42, and Gas Tax Subvention			
County	<u>Medium Range</u> <u>Revenues</u>	<u>Baseline Cost</u>	<u>Difference</u>
Imperial	\$1.26	\$0.80	\$0.46
Los Angeles	\$79.19	\$80.11	(\$0.92)
Orange	\$20.44	\$15.11	\$5.32
Riverside	\$9.21	\$6.31	\$2.90
San Bernardino	\$8.97	\$10.68	(\$1.71)
Ventura	\$2.82	\$2.29	\$0.53
Regional Total	\$121.89	\$115.30	\$6.59

Note: Numbers may not add due to rounding.

The SCAG Region's financial plan for the Draft 2004 RTP has been updated to reflect more recent changes in assumptions. The updated revenue estimates included in the forecast are from existing local, state and federal sources. Additionally, this forecast includes gas tax subvention revenues, new revenues from Proposition 42, and revenues from the extension of the local sales tax in Riverside County. Remaining regional funding strategies included in the 2001 RTP are not included in this baseline revenue forecast – these strategies will be addressed at a later time.

We anticipate significant adjustments resulting from potential changes in economic conditions and in turn various budgetary as well as policy decisions (including the reauthorization of TEA-21). Accordingly, we devised a revenue-forecasting format of a range (low, medium and high) to serve as a basis for further modifications in updating the financial plan for the 2004 RTP.

Also, baseline cost estimates noted above, include short-term capital commitments including the TIP; operation and maintenance estimates for highways, the arterial system, and transit; as well as bonding costs. All revenues and costs are expressed in constant YR2002 dollars – rather than YR1997 dollars as was the case for the 2001 RTP. Moreover, the base year for the 2004 RTP financial plan is 2002 and the horizon year is 2030.

For illustration purposes, the Draft Baseline Regional Checkbook above depicts the medium range revenue scenario – this medium range is most comparable to the assumptions utilized for the 2001 RTP.

BACKGROUND:

Review of the 2001 RTP Finance Plan

The financial plan for the 2001 RTP was developed under the direction of the Long-Range Transportation Finance Task Force. The finance plan examined how best to provide the financial resources necessary for maintaining the existing transportation system and investing in new projects identified in the RTP. An assessment of existing revenues from local, state and federal sources for the six county SCAG Region yielded a Baseline revenue estimate of \$100 billion over the 29-year time horizon of the 2001 RTP, from 1997 through 2025. The forecast was expressed in constant 1997 dollars.

Various assumptions were made to provide the underlying groundwork for development of the 2001 RTP revenue forecast:

1. The SCAG forecast would be consistent with the forecasts provided by the local CTCs and transit operators.
2. A 3 percent de-escalation rate was applied to enable the data to be expressed in a common year that allows for even comparisons between and among the revenues and costs.
3. Sixteen revenue sources from local, state and federal sources were approved for inclusion in the finance plan.
4. No assumed extension of local transportation sales taxes, with existing sales taxes expiring over the next 10 years (in the baseline assessment of revenues).
5. Potential loss of revenue due to the future penetration of alternative fuels as well as increased fuel efficiency to ensure compliance with air quality requirements.

As a way to organize the revenues and costs to maintain the existing transportation system, a Regional Checkbook was created that matched the Baseline revenues with costs. The Baseline costs, which included the cost to operate and maintain both highways and transit, were \$100 billion, thus balancing the available revenue. This created a need for a public funding strategy to raise additional revenue for new RTP projects to accommodate the anticipated 40% growth in regional population by 2025.

The public's share of the cost for new RTP projects amounted to \$24 billion over the next 25 years (private, other share estimated at \$20 billion). Because the Baseline available dollars (\$100 billion) were committed towards maintaining the existing system, it was necessary to develop financial strategies to bridge this funding gap.

The Finance Task Force adopted the following public funding strategy:

1. Continue using state gasoline sales tax revenues for transportation purposes (extending the TCRP funding program beyond 2006).
2. Continue local sales tax measures for transportation where necessary.
3. Adjust the state motor vehicle fuel excise tax rate and user-fees to maintain historical purchasing power (pursue further study).

California voters approved Proposition 42 on the March 2002 ballot that will extend indefinitely the use of the state sales tax on gasoline for transportation, beginning in fiscal year 2008-09. By this approval, the first funding strategy has been implemented. The second funding strategy is also close to being partially implemented, as Riverside County managed to gain approval for the reauthorization of its local transportation sales tax this past November. San Bernardino, Orange and Imperial Counties will be planning an extension of their respective taxes over the next several years. In addition, the third funding strategy is taking its first steps, as the passage of ACR 32 (Dutra) this past legislative session commissions the California Transportation Commission to undertake a study with the assistance of Caltrans and the regional transportation agencies to assess the potential decreases in transportation revenues.

These actions have helped to strengthen and reinforce the objectives of the RTP financial plan. However, the current economic environment coupled with the continuing decline in transportation funds reflect the challenges that remain for the update to the financial plan.

We anticipate significant adjustments resulting from potential changes in economic conditions and in turn various budgetary as well as policy decisions including the reauthorization of TEA-21. Accordingly, we devised the following format of the revenue range (low, medium and high as shown below) to serve as a basis for further modifications in updating the financial plan for the 2004 RTP:

The revenue range is defined as follows:

1. HIGH RANGE: Assumes no revenue impacts to the forecast from air quality policies. Also, no impacts from the gradual transition to an aging society.
2. MEDIUM RANGE: Assumes impacts to revenues from introduction of alternative fuels and greater fuel efficiency.
3. LOW RANGE: Assumes impacts to revenues from alternative fuels, fuel efficiency and the gradual transition to an aging society.

FY 2002 is the starting point for the updated forecast, with an ending year of 2030. All revenues are expressed in constant year 2002 dollars.

Table 1

Draft 2004 RTP <u>Baseline</u> Regional Revenue Forecast (in constant 2002 dollars, billions)			
County	High	Medium	Low
Imperial	\$1.31	\$1.26	\$1.25
Los Angeles	\$91.31	\$79.19	\$77.21
Orange	\$23.96	\$20.44	\$20.17
Riverside	\$11.34	\$9.21	\$8.94
San Bernardino	\$12.09	\$8.97	\$8.73
Ventura	\$3.01	\$2.82	\$2.77
Regional Total	\$143.02	\$121.89	\$119.08

Note:

- 1) These estimates do not include all the public and private funding strategies outlined in the 2001 RTP. The medium scenario is comparable to the 2001 RTP base financial forecast with slight adjustments including expression of dollars in year 2002 terms. Also, these estimates include projected revenues for Riverside County's extension of their local transportation sales tax, Proposition 42 revenues, and gas tax subventions.
- 2) Additional adjustments may need to be made to these numbers including reduction in revenues of as much as \$8.8 billion due to the current state budget crisis.
- 3) Numbers may not add due to rounding.

Assumptions for the Draft 2004 RTP Revenue Forecast

An update to the previous financial model has been undertaken with updates to the revenue sources. Several changes have been made to the previous forecast to include:

1. Developing a range of forecasted revenue. Rather than developing one forecast, a high, medium and low revenue range has been established to provide options based on different assumptions. The options range from assuming no revenue impacts to the forecast from air quality policies (high range), impacts to revenues from introduction of alternative fuels and greater fuel efficiency (medium range), and impacts to revenues from alternative fuels and the gradual transition to an aging society (low range). The high and low ranges do not equally deviate from the medium range, but rather from the revenue impacts modeled from the different assumptions.
2. Changing the new base fiscal year from 1997 to 2002. FY 2002 is the starting point for the updated forecast, with an ending year of 2030. This is in contrast to the previous financial forecast in which the time horizon was from 1997 to 2025.
3. Expressing revenues in constant year 2002 dollars. This allows future revenues to be matched with costs which are typically expressed in today's dollars.

4. Including a beginning balance of prior year revenues in the forecast. This adds to the consistency between local transportation commission forecasts and improves the matching of revenues with RTP projects.
5. Adjusting sales tax revenues for each of the counties based upon more recent inputs from local county transportation commissions – a modest decline.
6. Including partial gas tax subvention revenues -- the portion of state gas tax revenues that are apportioned directly to cities and counties for use on the street and road system. Consistent with the Finance Task Force's direction, the partial inclusion of gas tax subventions would offset maintenance expenses for the "regionally significant" arterial system throughout the SCAG Region.
7. Including projected estimates of extending the local transportation sales tax revenues for Riverside County – voter authorized in November of 2002.
8. Including Proposition 42 revenues starting in FY2009.

As indicated in the note section of table 1 above, additional adjustments may need to be made including a potential \$8.8 billion reduction in regional revenues due to the state's current budget crisis (longer-term implication).

Also noted under table 1, the revenue estimates included in the forecast are from existing local, state and federal sources as well as new revenues from Proposition 42 and the extension of local sales taxes in Riverside County. Remaining regional funding strategies included in the 2001 RTP are not included in this baseline revenue forecast.

Certainly, under current economic uncertainties and the various issues that could impact transportation revenues, the forecast would be adjusted as necessary to reflect new data or events that transpire. However, this draft range provides a basis for the assessment of projects for inclusion in the RTP.

Table 2 and Table 3 provide a forecast of the Region's baseline cost estimates. The major categories of costs include capital commitments including the TIP; operation and maintenance estimates for highways, the arterial system, and transit; as well as bonding costs. Additionally, Table 4 provides the updated Baseline Regional Checkbook by County for the Draft 2004 RTP financial plan. The Checkbook assesses the medium range revenue scenario for analysis purposes – this medium range is most comparable to the assumptions utilized for the 2001 RTP.

Table 2 (in constant 2002 dollars, billions)

Baseline Regional Costs by County							
	<u>Imperial</u>	<u>Los Angeles</u>	<u>Orange</u>	<u>Riverside</u>	<u>San Bernardino</u>	<u>Ventura</u>	<u>Total</u>
TIP	\$0.31	\$9.43	\$2.79	\$1.27	\$2.16	\$0.57	\$16.54
Other Capital Commitments	\$0.09	\$4.45	\$0.85	\$0.30	\$1.45	\$0.07	\$7.21
SHOPP	\$0.21	\$3.39	\$0.78	\$0.58	\$1.75	\$0.31	\$7.02
Arterial O&M	\$0.08	\$4.87	\$2.30	\$1.32	\$2.07	\$0.57	\$11.13
Transit O&M	\$0.10	\$36.47	\$4.34	\$1.97	\$2.39	\$0.66	\$45.93
Transit Rehab/Replacement	\$0.00	\$9.57	\$0.70	\$0.20	\$0.21	\$0.10	\$10.78
Bonds	\$0.00	\$11.93	\$3.35	\$0.68	\$0.64	\$0.00	\$16.60
Total	\$0.80	\$80.11	\$15.11	\$6.31	\$10.68	\$2.29	\$115.30

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Table 3 (in constant 2002 dollars, billions)

Baseline Regional Costs Summary		
Baseline Cost Category	Costs	Percentage
TIP & Other Capital Commitments	\$23.8	21%
O&M	\$74.9	65%
Bonds	\$16.6	14%
Total	\$115.3	100%

Table 4

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FISCAL IMPACT:

All work related to approving the recommended staff action is contained within the adopted FY2002/2003 budget.

